

ISSUE: Survey of the Business Climate in Virginia

This *Issue Insight* summarizes results from a 2008 survey of businesses regarding the business climate in Virginia. The Council on Virginia's Future sponsored the survey. More than 850 business leaders participated in the survey, which was developed and conducted jointly by the survey research centers at the University of Virginia and Virginia Commonwealth University. Some of the key findings are summarized in this Issues Insight, and more detailed analyses of the data are being developed. Appendix A describes the regions used in this survey.

Key Findings

- About 73 percent of business leaders rate Virginia's business climate either as excellent (2.9%), very good (19.3%), or good (49.5%). Fewer than 28% rate it as only fair or poor. In general, larger businesses are more positive about both the business climate and future business conditions than are smaller businesses.
- Sixty percent believe that state government has the greatest responsibility for creating the state business climate, and 55 percent believe that the state is doing a good, very good, or excellent job.
- Not surprisingly, 79 percent of respondents say that business conditions in the U.S. are either a little worse or a lot worse than a year ago. Looking to the future, seventy-three percent of respondents are less optimistic about future U.S. business conditions, and 61 percent are less optimistic about future business conditions in Virginia.

Summary Priority Analysis

Researchers compared ratings of perceived importance to perceived performance for the 12 major components of the business climate defined in the survey. The matrix in Figure 1 suggests areas that are the highest priority for attention: those that are high in importance but low in performance.

Figure 1
Summary Priority Table

		Perceived Importance		
		Low	Medium	High
Perceived Performance	High	Energy Sources Telecommunications	Higher Education	Quality of Life
	Med.		Government Attitudes	Healthcare K-12 Education Transportation Workforce Quality*
	Low	Business Regulations	Tax Policies Economic Development	



- Workforce quality, K-12 education, healthcare, quality of life, and transportation issues are perceived as particularly important components of the business climate.
- In terms of performance, quality of life and higher education are generally seen as positive components of Virginia's business climate. Workforce quality*, transportation, K-12 education, and healthcare are generally given lower ratings for performance.
- When the performance ratings for each component are considered jointly with the importance ratings that respondents assign to each component, workforce quality issues and transportation are seen as the areas of highest priority—that is, they are highly important yet in need of improvement.
- Government attitudes, tax policies, business regulations, and economic development are given fairly low performance ratings by Virginia's businesses. Although these factors are deemed low to moderately important overall, they are key elements in the perceived business climate that are clearly within government's purview.

The remainder of this document looks at specific issues or subcomponents that comprise the key business climate components. The analysis presents either the percentage of respondents rating an issue in a particular way (excellent, very good, etc.) or the average rating for an issue. Averages were calculated by assigning scores to responses as follows: 1=poor, 2=only fair, 3=good, 4=very good, 5=excellent. An average rating of 4.5 indicates that a significant majority of respondents rated the issue as very good or excellent.

Workforce Quality

- Workforce quality was rated as the most important business climate component for Virginia to address. While 64 percent of respondents rated the quality of the workforce in their area as excellent (2%), very good (16%), or good (46%), respondents rated the following subcomponents as only fair or poor:

	<u>% of respondents</u>
○ Work habits and employability of entry-level workers	58%
○ Work habits and employability of high school graduates	57%
○ Availability of workers with technical skills	45%
○ Availability of unskilled workers	35%
- The overall quality of workforce was rated highest in the Northern region (3.0), while the Southside and Eastern regions had the lowest average score (2.3). Average ratings for specific workforce quality subcomponents are presented in Table 2 for the three regions that rated the overall quality of their workforce below the state average.

* NOTE: In general, respondents were positive about the quality of graduates from Virginia's colleges, with more than 80% rating their job qualifications as good, very good, or excellent. However, a majority of respondents rated the employability of high school graduates and entry-level workers as only fair or poor. Almost 45% rated the availability of workers with needed technical skills as only fair or poor. When taken as a whole, Virginia's workforce quality performance was rated as medium.



Figure 2
Workforce Quality Subcomponent by Selected Region

Workforce Quality Subcomponent	Average Ranking by Region		
	Eastern	Southside	Southwest
Overall workforce quality in the region	2.28	2.39	2.51
Work habits and employability of entry-level workers	1.93	1.90	2.28
Availability of workers with technical skills	1.94	1.98	2.45
Availability of a well-educated workforce	1.96	1.97	2.44
Work habits and employability of high school graduates	2.10	2.21	2.30

Transportation

- Only one in a hundred business leaders gave transportation an overall rating of excellent (1%). Fifty-seven percent rated transportation as very good (14%), or good (43%). Thirty percent of respondents gave transportation an overall rating of only fair, and 12% rated it as poor.
- Respondents rated Virginia transportation subcomponents as only fair or poor in the following categories:
 - Freedom from congestion 62%
 - Access to public transportation 60%
 - Predictability of travel times by road 44%
 - Adequacy of road networks 37%
 - Quality of roads 37%
- Four elements of transportation received an average rating of good or better. Elements rated as good, very good, or excellent were:
 - Access to interstate highways 86%
 - Access to transportation for freight 88%
 - Access to air transportation for passengers 80%
 - Access to waterways 66%
- Key regional differences included:
 - Freedom from congestion was rated lowest in the Northern (1.4) and Hampton Roads (1.6) regions. The highest ratings were in Southside, Eastern, and Southwest regions, where each had similar average ratings of about 3.1.
 - Access to public transportation was rated highest in Northern Virginia (2.7) and lowest in the Eastern region (1.5). However, all regions fell below the 3.0 'good' rating.
 - The adequacy of road networks was rated highest in the Central and Valley regions (3.2), and lowest in the Northern (2.7) and Hampton Roads (2.6) regions.



- The predictability of travel times by car was rated lowest in the Northern (1.9) and the Hampton Roads (2.2) regions. Other regions averaged above 3.0.
- Ratings were considerably lower for access to air transportation in the Southwest (2.0), Southside (2.0), and Eastern (2.1) regions than in the rest of the state.

K-12 Education

In general, ratings of specific elements of K-12 education in Virginia were below the 3.0 average for a 'good' rating. Seventy-seven percent of respondents rated K-12 education as critical or very important.

Figure 3
K-12 Education Subcomponents: Percentage of Respondents by Category

Item	Excellent or Very Good	Good	Only Fair or Poor	Average Rating
Quality of vocational education in high schools	16%	46%	38%	2.7
Availability of vocational education in high schools	18%	43%	39%	2.7
Job qualifications and skills of high school graduates	13%	45%	42%	2.6
Work habits and employability of high school graduates	9%	34%	57%	2.4
Overall rating for K-12 education	17%	46%	38%	2.7

Average ratings were fairly consistent across regions. The Northern region had the highest average ratings for the job qualifications and skills of high school graduates (2.9) and the work habits and employability of high school graduates (2.6). The Eastern region, with averages of 2.3 and 2.1 respectively, had the lowest ratings for the two indicators.

Healthcare

The overall rating for healthcare averaged near the 'good' level at 2.9. The lowest-rated issue was the affordability of employer-purchased healthcare plans for employees, with an average score of 2.1 and 71% of respondents rating Virginia as only fair or poor. The lowest ratings were in the Eastern (1.7) and Southside (1.9) regions.

In addition, while the Northern, Central, Hampton Roads, Valley, and West Central regions had the highest average ratings for availability of healthcare providers and services (3.2 to 3.3), the Southside and Eastern regions had the lowest average ratings, 2.4 and 2.5 respectively.

Tax Policies

State and local tax policies were rated only slightly less important than transportation for the state to address (3.94 v. 3.99). Average performance ratings were also similar, with transportation (2.64) ranking higher than tax policies (2.38). The ratings did not vary much across regions, but smaller firms tended to give state and local tax policies relatively lower performance rankings.



Figure 4
Taxation Policy Subcomponents: Percentage of Respondents by Category

Item	Excellent or Very Good	Good	Only Fair or Poor	Average Rating
Filing process for state taxes	16%	54%	30%	2.8
Filing process for local taxes	14%	53%	33%	2.8
Other state taxes	5%	40%	56%	2.3
State gasoline and fuel taxes	6%	32%	62%	2.2
Taxes on business real estate, equipment, machinery, and/or tools	4%	34%	62%	2.2
BPOL and Merchant's Capital taxes	4%	30%	66%	2.2
Allocation of tax revenue	4%	26%	70%	2.0
Overall rating for tax policies	5%	40%	55%	2.4

Economic Development

Economic development, with an average importance rating of 3.91, was rated near the 'very important' rating of 4.0. Its overall performance ranking of 2.5 was the second lowest, slightly above the ranking for tax policies. Support for 'economic development' was fairly strong, while support for incentive programs was decidedly mixed.

Figure 5
Economic Development Subcomponents: Percentage of Respondents by Category

Item	Excellent or Very Good	Good	Only Fair or Poor	Average Rating
Economic development programs for your area	21%	44%	35%	2.8
State assistance with economic development in your area	15%	42%	43%	2.6
Effectiveness in replacing lost jobs	8%	33%	60%	2.3
Ability of the state to craft creative economic development solutions	9%	33%	58%	2.3
Fairness of business incentive programs	9%	36%	56%	2.3
Availability of business incentives for starting businesses	7%	36%	57%	2.3
Overall rating for economic development	12%	41%	47%	2.5



Ratings for economic development tended to vary significantly by region. Among the highlights were the following:

- Average ratings for economic development programs were lowest in the Eastern and Southwest regions (2.0 and 2.4). For the remaining regions, the average ratings were similar (2.7 to 2.9).
- All other regions had significantly higher average ratings (2.4 to 3.0) for state assistance with economic development programs than the Eastern region (1.9). The highest average rating was in the Southside region (3.0).
- Effectiveness in replacing lost jobs had the highest average ratings in the Central, Southside, and Northern regions (2.4 to 2.5), and the lowest average rating in the Eastern region (1.8).
- The average rating for availability of business incentives for starting businesses was highest in the Central and Southside regions (2.6), and lowest in the Eastern, Northern, and Valley regions (1.9 to 2.0).
- Fairness of business incentive programs and ability of the state to craft creative economic development solutions were both rated highest in the Central region (2.6), and lowest in the Eastern region (1.9).

Performance ratings on economic development programs, effectiveness in replacing lost jobs, fairness of business incentive programs, and availability of business incentives for starting businesses show significant variation across the business size categories. The highest average scores tend to be in the two largest business size categories.

Government Attitudes and Business Regulations

Survey respondents categorized the government attitudes component, with average performance ratings of 2.70 and importance ranking of 3.83, as being of medium performance and medium importance. The business regulations component, at 2.64 and 3.61 respectively, was categorized as low performance and low importance. In general, regional ratings were fairly consistent except for lower ratings in the Eastern region.



Figure 6
Government & Regulatory Subcomponents: Percentage of Respondents by Category

Item	Excellent or Very Good	Good	Only Fair or Poor	Average Rating
Government Attitudes				
Local government attitudes toward business	21%	41%	38%	2.7
Attitudes towards business from state agencies and offices	17%	46%	37%	2.7
Effectiveness of the state's communication with businesses	10%	41%	49%	2.5
Overall rating for state and local government attitudes	14%	49%	37%	2.7
Business Regulations				
Environmental regulations	15%	58%	27%	2.8
Building inspection process	11%	52%	37%	2.6
Land use planning process	12%	44%	45%	2.5
Level of assistance from state regulatory offices	10%	45%	45%	2.5
Zoning process	10%	45%	46%	2.5
Overall rating for regulatory climate	10%	53%	38%	2.6

High-Performance Components

Business leaders ranked the quality of life (at 4.05 out of five) and higher education (with an importance rating at 3.9) as important components of Virginia's overall business climate. These two items were also rated as components of the business climate in which Virginia is performing relatively well, with average performance ratings of 3.4.

For higher education, only one component, the availability of information about programs and how community colleges can help businesses, was rated below average, at 2.6 with 45 percent of respondents rating Virginia as only fair or poor.

The performance of two quality-of-life subcomponents was significantly below average:

- The affordability of housing for workers was given an average rating of 2.2, with about 68 percent of respondents rating Virginia as only fair or poor.
- The average performance for the cost-of-living subcomponent was given a 2.4 average rating with about 51 percent respondents rating Virginia as only fair or poor.

Two key economic development infrastructure items, telecommunications and energy, were also rated as relative strengths for Virginia. The Eastern region showed the lowest ratings – by a significant margin – for both the cost and availability of telecommunications services.



Innovation

More than 50 percent of the respondents ranked innovation as one of their three top business priorities.

There was a strong relationship between the importance of innovation and region:

- The highest percentages of respondents indicating innovation as a 'top priority' were in the Southwest (18.7%) and Northern (17.5%) regions.
- The lowest percentage of respondents indicating innovation as a 'top priority' was in the West Central region (5.5%).
- Six of the eight regions had percentages that exceeded 11%.

The size of business category was also important in how leaders responded to the innovation question:

- Larger companies with at least 350 employees had the highest percentages of respondents, at 18.7%, indicating innovation as a 'top priority.'
- More than 17 percent of medium companies with 35 to 99 employees responded that innovation was a top priority.
- Smaller companies with 5 to 9 employees had the lowest percentage (9.3 percent).

However, in spite of the fact that more than 4 out of 5 respondents in the entire sample indicated that innovation was at least a 'top 10' priority in their companies, and half of the respondents responded that it was at least a 'top 3' priority, only 37 percent of the business leaders indicated that product creation/innovation was part of their Virginia operation.

The most important issue related to innovation was the availability of qualified workers. There was a similar pattern of results across the regions and the business size categories. Among the regional highlights are the following:

- The average importance of 'availability of qualified workers' was highest in the Eastern and Southwest regions (4.5), but very similar across the regions overall (4.1 to 4.5).
- The average importance of 'proximity to research universities and other tech companies' was highest in the Southwest and West Central regions (3.2), but very similar across the regions overall (2.7 to 3.2).
- The average importance of 'state and local government policies and regulations' was highest in the Eastern region (3.95), lowest in the Valley and Southside regions (3.0 to 3.2), but very similar across the rest of the regions (3.4 to 3.6).
- The average importance of 'infrastructure' was highest in the Southwest and Hampton Roads regions (4.2), and lowest in the Eastern, Valley, and Southside regions (3.4 to 3.5), but very similar across the rest of the regions (3.9 to 4.0). Infrastructure is broadly defined to include both physical (for example, transportation, telecommunications) and intellectual (access to universities and technology, etc.) components.

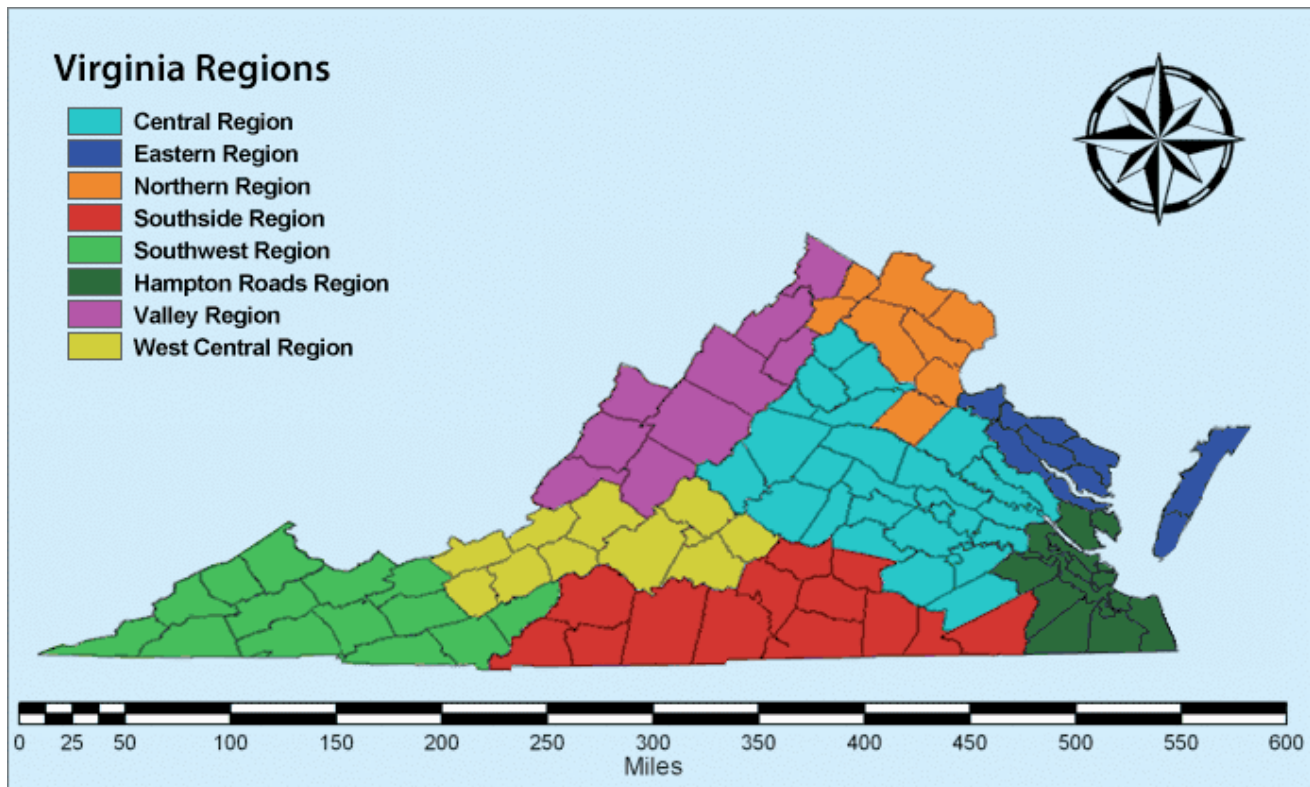


Summary

- Workforce quality, K-12 education, healthcare, quality of life, and transportation issues are perceived as particularly important components of the business climate.
- In terms of performance, quality of life and higher education are generally seen as positive components of Virginia's business climate. Workforce quality, transportation, K-12 education, and healthcare are generally given lower ratings.
- When the performance ratings for each component are considered jointly with the importance respondents assign to each component, certain workforce issues and transportation are seen as the areas of highest priority—that is, they are highly important and in need of improvement.
- Government attitudes, tax policies, business regulations, and economic development are given fairly low performance ratings by Virginia's businesses. Although these factors are deemed low to moderately important overall, they are key elements in the perceived business climate that are clearly within government's purview.



Appendix A Makeup of Council Regions



The table on the next page lists the localities in each region.



Makeup of Council Regions

Region	Cities		Counties		
Central	<ul style="list-style-type: none"> * Charlottesville * Colonial Heights * Hopewell * Petersburg * Richmond 		<ul style="list-style-type: none"> * Albemarle * Amelia * Buckingham * Caroline * Charles City * Chesterfield * Culpeper * Cumberland * Dinwiddie 	<ul style="list-style-type: none"> * Fluvanna * Goochland * Greene * Hanover * Henrico * King and Queen * King William * Louisa 	<ul style="list-style-type: none"> * Madison * Nelson * New Kent * Orange * Powhatan * Prince George * Rappahannock * Sussex
Eastern			<ul style="list-style-type: none"> * Accomack * Essex * King George 	<ul style="list-style-type: none"> * Lancaster * Middlesex * Northampton 	<ul style="list-style-type: none"> * Northumberland * Richmond * Westmoreland
Northern	<ul style="list-style-type: none"> * Alexandria * Fairfax * Falls Church 	<ul style="list-style-type: none"> * Manassas * Manassas Park * Fredericksburg 	<ul style="list-style-type: none"> * Arlington * Clarke * Fairfax 	<ul style="list-style-type: none"> * Fauquier * Loudoun * Prince William 	<ul style="list-style-type: none"> * Stafford * Spotsylvania * Warren
Southside	<ul style="list-style-type: none"> * Emporia * Danville * Martinsville 		<ul style="list-style-type: none"> * Brunswick * Greenville * Nottoway * Lunenburg 	<ul style="list-style-type: none"> * Patrick * Henry * Pittsylvania * Halifax 	<ul style="list-style-type: none"> * Charlotte * Prince Edward * Mecklenburg * Southampton
Southwest	<ul style="list-style-type: none"> * Bristol * Galax * Norton 		<ul style="list-style-type: none"> * Bland * Buchanan * Carroll * Lee * Scott 	<ul style="list-style-type: none"> * Wise * Russell * Dickenson * Smyth * Wythe 	<ul style="list-style-type: none"> * Grayson * Tazewell * Floyd * Washington
Hampton Roads	<ul style="list-style-type: none"> * Chesapeake * Franklin * Hampton * Newport News * Norfolk 	<ul style="list-style-type: none"> * Poquoson * Portsmouth * Suffolk * Virginia Beach * Williamsburg 	<ul style="list-style-type: none"> * Gloucester * Isle of Wight * James City * York * Mathews 	<ul style="list-style-type: none"> * Surry 	
Valley	<ul style="list-style-type: none"> * Winchester * Harrisonburg * Staunton * Lexington 	<ul style="list-style-type: none"> * Waynesboro * Buena Vista * Covington 	<ul style="list-style-type: none"> * Allegheny * Bath * Augusta * Rockbridge 	<ul style="list-style-type: none"> * Rockingham * Page * Shenandoah * Frederic 	<ul style="list-style-type: none"> * Highland
West Central	<ul style="list-style-type: none"> * Bedford * Lynchburg * Roanoke * Salem 	<ul style="list-style-type: none"> * Radford 	<ul style="list-style-type: none"> * Amherst * Appomattox * Bedford * Campbell 	<ul style="list-style-type: none"> * Botetourt * Craig * Franklin * Roanoke 	<ul style="list-style-type: none"> * Pulaski * Montgomery * Giles